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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
PAUL NEWMAN
GARY PIERCE
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE GENERIC PROCEEDING CONCERNING ELECTRIC RESTRUCTURING ISSUES.

Docket No. E-00000A-02-0051

Docket No. E-00000A-01-0630

ARIZONA MUNICIPAL POWER USERS' ASSOCIATION NOTICE OF FILING UPDATED COMMENTS REGARDING ELECTRIC RESTRUCTURING ISSUES

The Arizona Municipal Power Users' Association submits its comments regarding the generic proceeding concerning electric restructuring issues.

The Arizona Municipal Power Users' Association ("AMPUA") is an association of consumer-owned and operated electrical systems and it consists of cities and towns, rural electric distribution and generation cooperatives, special districts, irrigation and electrical districts, agricultural improvement districts and Indian utilities. Collectively the members deliver almost one-third the electricity in Arizona to over two million people.

AMPUA joins in and supports the comments of Salt River Project and New West Energy.

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Arizona Corporation Commission
DOCKETED
APR - 9 2010
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AMPUA submits for the record the American Public Power Association report entitled "Retail Electric Rates in Deregulated and Regulated States: 2009" in further support of its position retail competition in Arizona is premature.

DATED this 9 day of April, 2010.

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PROOF OF AND CERTIFICATE OF MAILING

I hereby certify that on this 9 day of April, 2010, I caused the foregoing document to be served on the Arizona Corporation Commission by delivering the original and thirteen (13) copies of the above to:

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Retail Electric Rates in Deregulated and Regulated States: 2009 Update

Published March 2010

American Public Power Association

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Retail Electric Rates in Deregulated and Regulated States: 2009 Update

The U.S. Department of Energy, Energy Information Administration (EIA) data show that between 1997 and 2009, increases in retail electric prices were significantly greater in states with deregulated electric markets than in regulated states. EIA has just published full-year 2009 data, allowing a 12-year comparison between deregulated and regulated states.

The deregulated category includes states that are located in markets under the jurisdiction of the Federal Energy Regulatory Commission (FERC) and that allow end-use customers to choose their electricity provider (retail choice) but no longer have rate caps or other forms of transition rates. The exclusion of retail choice states with rate caps is necessary because rate caps artificially constrain rates. Deregulated states are California, Connecticut, the District of Columbia, Delaware, Illinois, Massachusetts, Maryland, Maine, Michigan, Montana, New Hampshire, New Jersey, New York, and Rhode Island.

The regulated category includes those states with traditional rate regulation and Ohio and Pennsylvania, the two retail choice states that have a continuation of transition rates. (In Ohio, investor-owned utilities (IOUs) are required to offer customers a rate approved by the state utility commission under a cost-plus-based electric security plan.) Average retail rates for each category were calculated by dividing total revenue from sales to consumers by total sales to consumers.

In most deregulated states, IOUs sold off their electric generating facilities as part of the implementation of the retail choice regime, as it was expected that after a short transition period, alternative providers would serve virtually all customers. Instead, retail competition failed to develop as anticipated, so these IOUs must now purchase power from the wholesale market to serve the large majority of customers that are still taking utility service (generally called default or provider-of-last-resort service). And with the exception of Montana, all of these states are located in regions where wholesale electricity prices are set through centralized wholesale markets run by regional transmission organizations (RTOs) and Independent System Operators (ISOs).

The following chart and graph cover twelve years of experience with retail choice programs. 1997 was chosen as the starting year as it represents the last year with essentially no retail choice activity. The decline in rates in deregulated states in 1998 and 1999 most likely reflects the effect of mandated rate decreases in retail choice states, but the decline was short-lived as rates began rising again in 2000. Overall, data for the first six years (1997-2003) show that rates for both deregulated and regulated states increased by 0.5 cents per kilowatt-hour (kWh).

The story is much different for the next six years (2003-2009). Rates in deregulated states have risen significantly since 2004, and increased by 3.4 cents per kWh over the entire six-year period. In comparison, rates in regulated states rose by 2.1 cents per kWh during the same period.

In 2009, the most recent year, regulated, deregulated, and national average rates experienced only modest increases, most likely the result of the weak economy (and corresponding lower demand for electricity) and a significant drop in natural gas prices. The price of natural gas delivered to electric power facilities averaged $9.26 per thousand cubic feet (MCF) in 2008 but only $4.89 per MCF in 2009.

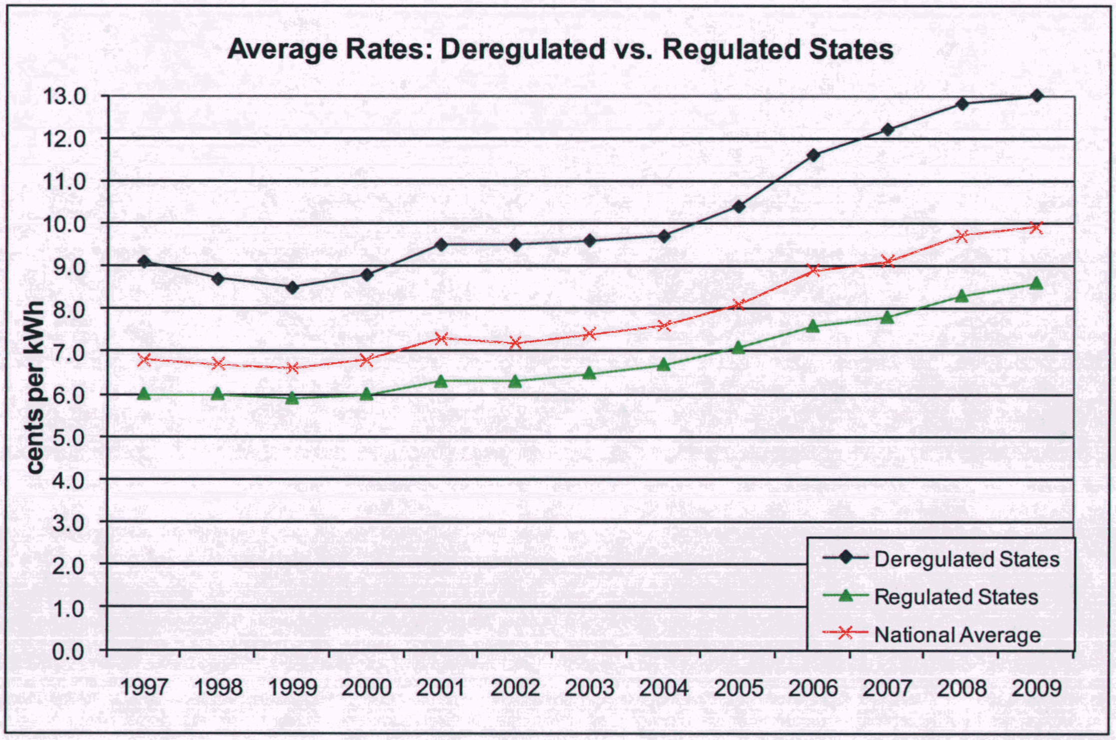
States that implemented retail choice electric plans were generally high cost states, and the hope was that competition by electric suppliers would result in lower rates. In 1997, the states in the deregulated category had average rates that were 3.1 cents per kWh above rates in the regulated states (9.1 vs. 6.0). Unfortunately, the retail choice experience – complete with the combined effect of divestiture of utility generating assets, and exposure of retail consumers to wholesale rates set in RTO markets – has resulted in an even larger gap in 2009, with deregulated states paying, on average, rates that are 4.4 cents per kWh above rates in regulated states (13.0 vs. 8.6).

Average Revenue per Kilowatt-hour: Deregulated vs. Regulated States

Source: Energy Information Administration, Forms EIA-861 and EIA-826.

	Deregulated States	Regulated States	National
	(in cents per kilowatt-hour)		
1997	9.1	6.0	6.8
1998	8.7	6.0	6.7
1999	8.5	5.9	6.6
2000	8.8	6.0	6.8
2001	9.5	6.3	7.3
2002	9.5	6.3	7.2
2003	9.6	6.5	7.4
2004	9.7	6.7	7.6
2005	10.4	7.1	8.1
2006	11.6	7.6	8.9
2007	12.2	7.8	9.1
2008	12.8	8.3	9.7
2009	13.0	8.6	9.9
Difference, in cents per kilowatt-hour			
1997-2003	0.5	0.5	0.6
2003-2009	3.4	2.1	2.5
1997-2009	3.9	2.6	3.1

Notes: Deregulated states include: CA,CT,DC,DE,IL,MA,MD,ME,MI,MT,NH,NJ,NY,RI
Regulated states include all other states except for Texas.


Average Rates: Deregulated vs. Regulated States
cents per kWh
13.0
12.0
11.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Deregulated States
Regulated States
National Average

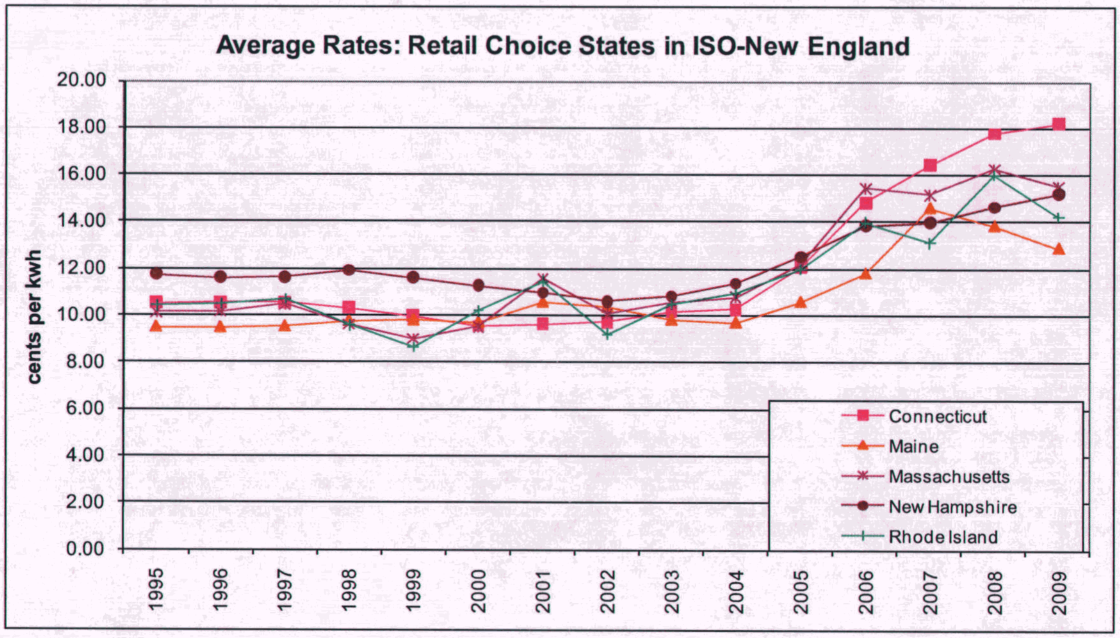
Data for Individual States

Five of the 14 states in the deregulated category are located in the footprint of the New England RTO (known as ISO-New England). The table below shows that rates for all five states were already well above the national average in 1997. Average rates in all five states increased more than the national average over the 1997-2009 period. Connecticut experienced rate increases more than double the national average.

In contrast, rates in Vermont – the one New England state that did not implement retail choice – increased less than the national average. Average rates in Vermont rose by 2.8 cents per kWh, from 9.9 cents per kWh in 1997 to 12.7 cents per kWh in 2009, and remain below average rates in the other four New England states.

State Average Customer Rates, in cents per kWh

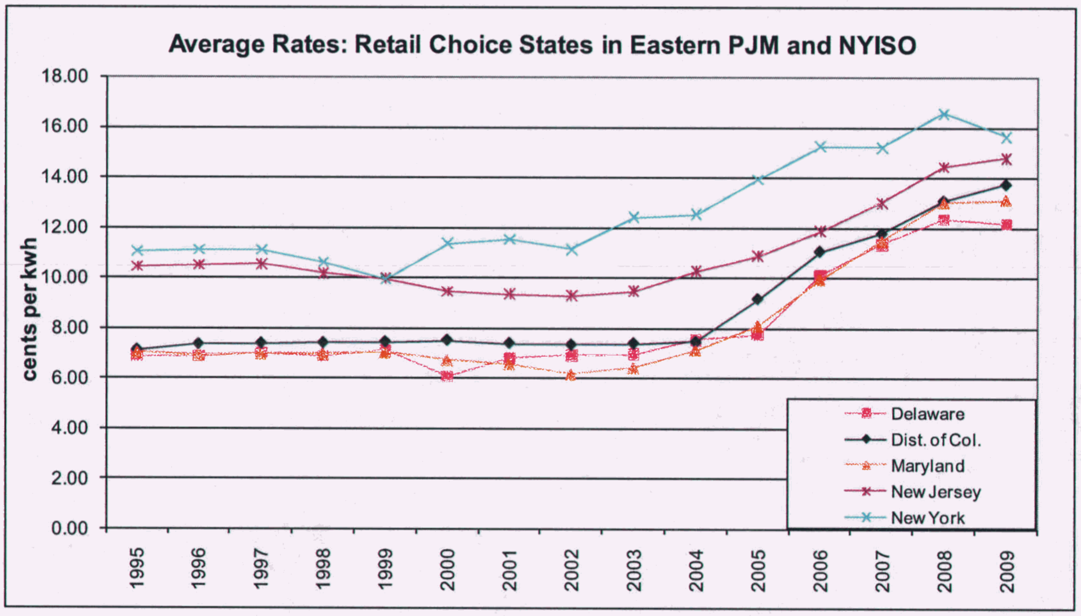
	1997	2009	Difference
ISO - New England			
Connecticut	10.5	18.2	7.7
Maine	9.5	12.9	3.4
Massachusetts	10.4	15.5	5.1
New Hampshire	11.6	15.2	3.6
Rhode Island	10.7	14.2	3.5
National Average	6.8	9.9	3.1
Vermont	9.9	12.7	2.8



Three retail choice states and the District of Columbia are in the PJM RTO, and the state of New York comprises the New York RTO (known as NYISO). The table below shows that retail rates in all five jurisdictions increased significantly more than the national average between 1997 and 2009. The two states with rates very close to the national average in 1997 ended up with rates averaging two cents per kWh (Delaware) and three cents per kWh (Maryland) above the national average by 2009.

State Average Customer Rates, in cents per kWh

	1997	2009	Difference
Eastern PJM and NYISO			
Delaware	7.0	12.2	5.2
District of Columbia	7.4	13.8	6.4
Maryland	7.0	13.1	6.1
New Jersey	10.5	14.8	4.3
New York	11.1	15.7	4.6
National Average	6.8	9.9	3.1



Utilities in the two retail choice states in the Midwest operate in both PJM and the Midwest ISO (MISO). Commonwealth Edison, which serves over 60 percent of the load in Illinois, is in PJM, while the rest of the Illinois utilities and almost all of Michigan are in MISO.

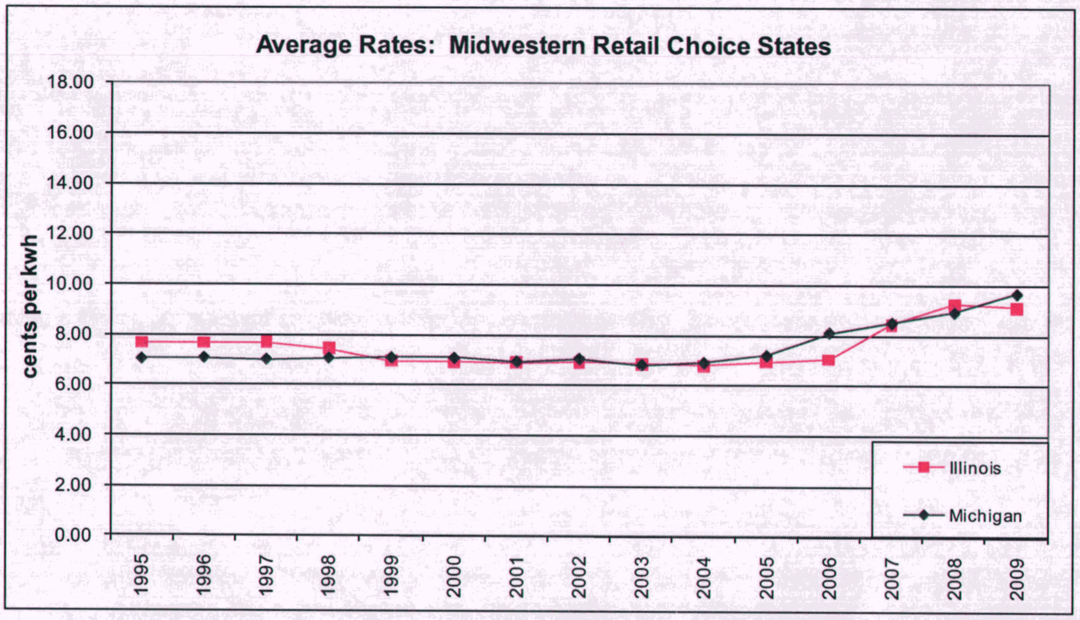
Rates in Illinois were subject to a rate cap through 2006. The state used an auction process to establish the 2007 rate, and because the results were so high, subsequently negotiated a refund settlement with the largest utilities. The settlement was authorized by a 2007 law that also established the Illinois Power Authority to procure power for IOUs.

Unlike IOUs in most retail choice states, Michigan utilities did not sell their generating assets, and as a consequence, only depend on wholesale power markets for a portion of their customers' power needs. Under the terms of a 2008 law, participation in retail choice programs is capped at ten percent of an IOU's retail sales.

Illinois and Michigan consumers have experienced only modest rate increases, as shown in the table below.

State Average Customer Rates, in cents per kWh

	1997	2009	Difference
Midwest			
Illinois	7.7	9.1	1.4
Michigan	7.0	9.7	2.7
National Average	6.8	9.9	3.1



Only two western states implemented retail choice: California, which comprises the California ISO, and Montana. Both states currently have very limited retail choice programs.

Following the California energy crisis in 2000-2001, retail choice was suspended in California, and the only customers that could choose their providers were those who were on retail choice plans at the time of the suspension. (An October 2009 law allows retail choice for commercial and industrial customers up to the level achieved prior to the suspension of retail choice.)

Montana is the only retail choice state not in an RTO, but the state's IOU sold off all of its generation, so the utility must purchase power in the market. Montana enacted a law in 2007 to end retail choice for all but large customers with more than 5 megawatts of load and those customers on retail choice plans as of October 2007.

State Average Customer Rates, in cents per kWh

	1997	2009	Difference
Western States			
California	9.5	13.6	4.1
Montana	5.2	7.4	2.2
National Average	6.8	9.9	3.1